2002
Legislative
Salary Commission

Scenarios
&
Options

The following scenarios and options are being presented by the 2002 Legislative Salary Commission for review and comment. All salary levels shown in this document are for the purpose of illustrating the application of a given scenario. Once a specific method for determining legislative salaries has been selected, the proposed salary levels may vary from the figures shown.

Although the current Commission was appointed in 2002 and makes its recommendations to the Governor and Legislature in 2003, any salary adjustments will not go into effect until 2005 at the earliest. This is pursuant to language within Article III, Section 9 of the Hawai`i State Constitution. Therefore, the draft salary options contained within this document show adjusted salaries beginning with 2004 when the Commission makes the recommendations.

DEFINITIONS

Scenario:

As used within this document, a scenario is a method used to determine how legislative salaries could be calculated. The Commission is currently considering the use of two different scenarios: Scenario 1 utilizes the Consumer Price Index (CPI) and Scenario 2 utilizes an Average Annual Wages index. These scenarios provide commonly used statistical measures that would allow either one-time or periodic adjustments to occur.

Consumer Price Index (CPI):

The consumer price index (CPI) is a statistical measure of change over time in the prices of various commodities and services in major expenditure groups such as food, housing, apparel, transportation, health and recreation typically purchased by urban consumers. Essentially it measures the purchasing power of consumers' dollars by comparing what a fixed market basket of goods and services costs today with what that same market basket cost at an earlier date. The CPI is often called the "cost of living index" since it reflects the buying habits of a population. However it measures only price changes which is just one of several important factors affecting living costs.

Average Annual Wages:

The statewide average annual wages for all workers covered by State and federal unemployment insurance programs are tabulated by the Department of Labor and Industrial Relations (DLIR). DLIR computes the average annual wages by dividing total wages by the corresponding average annual employment. According to DLIR, employment reflects the number of employees who worked for employers subject to Unemployment Insurance, technically referred to as covered employment. This represents all full-time and part-time employees who worked during or received pay for the payroll period including the twelfth of each month. Wages include all remuneration paid to covered civilian workers.

Option:

As used within this document, an option represents different ways or assumptions to adjust the base salary using one of the scenarios. The Commission currently is considering two different options for each of the Scenarios. Option 1 (Adjust from 2002) assumes that a scenario will be applied beginning in 2002, the year in which this Commission was appointed and began its deliberations. Option 2 (called Catch Up) assumes a scenario will be applied starting with 1994, the year when the last Legislative Salary Commission made recommendations.

SCENARIO 1: CPI INDEX

The last time Legislative salaries were adjusted was in 1993. Between 1993 and 2003, these salaries have remained the same at $32,000. Therefore, it may be argued that legislative salaries have not kept pace with increases in the cost of living in Hawai`i. Based on changes in the Honolulu Consumer Price Index for urban dwellers (CPI-U) since 1993, the current legislative salary level is 10.2 percent below a CPI-adjusted salary level for 2002. To recoup this diminished buying power, legislators would have had to earn about $36,700 in 2004 verses their current salary of $32,000. This erosion in earning power will continue and worsen if salaries are not adjusted to reflect the higher prices of goods and services in market. Scenario 1 uses the rate of change in the CPI to adjust salaries.

The CPI fluctuates from year to year. In order to smooth out these yearly fluctuations, the CPI factor that will be used to adjust salaries for a given year represents a moving eight year average. This average uses the previous eight years CPI to arrive at a CPI factor that is then multiplied by the current year salary. The resulting figure represents the next year's salary. The most current CPI figures are for 2002. Therefore, for the purpose of illustrating the application of Scenario 1 under each option – CPI rates for future years has been assumed to be 2.0% per year.

Option 1 (Adjust from 2002)

This option begins application of the CPI starting with 2002 and adjusts the current base salary of $32,000. Under Option 1, the 2003 salary level is adjusted by average annual change in CPI from 1993 to 2001. Once the salary level for 2003 is estimated, it is adjusted by the average annual change in CPI between 1994 and 2002 to adjust the 2004 salary level. In a similar fashion the 2012 salary level is adjusted by the average annual change in CPI between 2002 and 2010. See Table 1 under Scenario 1, Option 1.

Option 2 (Catch Up)

This option begins application of the CPI starting with 1994 and begins adjusting the base salary at that time which was $32,000. The "catch up" option attempts to make the 2004 year salary level equal in buying power to that of $32,000 in 1994. To do that, each year the salary is readjusted by the average annual change in CPI up to 2004. Each year thereafter, until 2012, the salary is readjusted by the annual change in CPI. See Table 1 under Scenario 1, Option 2.

Table 1. Draft Legislative Salary Options for 2004 1/ and 2012

Scenarios	Options	Adjusted Salary	2004	2012 3/
Scenario 1	Option 1 (adj. from 2002)	Using the growth rate in CPI 2/	$32,800	$37,300
	Option 2 (catch up)	Using CPI	$36,700	$43,000

1/ Not implemented until 2005.
2/ Average annual growth rate in CPI for previous 8 years.
3/ These projected salary levels are purely hypothetical based on the assumption that CPI will increase by 2 percent annually and average wages will increase by 2.2 percent annually.

SCENARIO 2: Average Annual Wages

The last time Legislative salaries were adjusted was in 1993. Between 1993 and 2003, these salaries have remained the same at $32,000. Legislative salaries in 1993 were approximately the same as average annual wages for that year. Therefore, it may be argued that legislative salaries have not kept pace with increases in the average annual wages in Hawai`i. Scenario 2 uses the rate of change in the average annual wages to adjust salaries.

The Annual Average Wages generally increases from year to year to reflect positive changes in productivity and inflation. In order to smooth out these yearly variations, the Annual Average Wages factor that could be used to adjust salaries for a given year represents a moving seven year average. This average uses the previous seven years Average Annual Wages figures to arrive at an Average Annual Wages factor that is then multiplied by the current year salary. The resulting figure represents the next year's salary. The most current Average Annual Wages figures are for 2001. Therefore, for the purpose of illustrating the application of Scenario 2 under each option – the growth in Average Annual Wages for future years has been assumed to be 2.2% per year.

Option 1 (Adjust from 2002)

This option begins application of the Average Annual Wages factor starting with 2002 and adjusts the current base salary of $32,000. Under Option 1, the 2003 salary level is adjusted by the yearly growth in the average annual wages from 1993 to 2000. Once the salary level for 2003 is estimated, it is adjusted by the yearly growth in average annual wages between 1994 and 2001 to adjust the 2004 salary level. In a similar fashion the 2012 salary level is adjusted by the yearly growth in average annual wages between 2002 and 2009. See Table 2 under Scenario 2, Option 1.

Option 2 (Catch Up)

This option begins application of the Average Annual Wages factor starting with 1994 and begins adjusting the base salary at that time which was $32,000. The "catch up" option attempts to make the 2004 year salary level and beyond equal to the average wage for each year. To do that, each year the salary is readjusted by the yearly growth in average annual wages. The salary is readjusted accordingly until 2012. See Table 2 under Scenario 2, Option 2.

Table 2. Draft Legislative Salary Options for 2004 1/ and 2012

Scenarios	Options	Adjusted Salary	2004	2012 3/
Scenario 2	Option 1 (adj. from 2001)	Using the growth rate in average wages 2/	$33,400	$40,100
	Option 2 (catch up)	Using average wages	$39,000	$46,400

1/ Not implemented until 2005.
2/ Average annual growth rate in average wages for previous 7 years.
3/ These projected salary levels are purely hypothetical based on the assumption that CPI will increase by 2 percent annually and average wages will increase by 2.2 percent annually.